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LATEST BUSINESS NEWS

CENTRAL EUROPEAN
BUSINESS WEEKLY

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CZECH REPUBLIC 45 KČ • SLOVAKIA 55 SK • AUSTRIA 20 ATS • POLAND 32,000 ZŁOTY / 3.2 NEW ZŁOTY • HUNGARY 150 FORINT • RUSSIA 2 DOLLARS • LITHUANIA 6 LITS • LATVIA 1 LATS • ESTONIA 25 KROONS

CEFTA takes big step forward in trade liberalisation

by David Osterhout in Warsaw

PROSPECTS FOR THE free flow of food and agricultural products between central European countries brightened this week when ministers from those countries decided to reduce tariffs by 50 per cent next January and to eliminate them completely by the start of 1998.

"The ministers concluded that the liberalisation of trade was not working properly and that more dynamic actions were needed to move the process forward," Marian Brzoska, director of Poland's Department of Integration and Foreign Aid Coordination, said in an interview with *Central European Business Weekly*.

The tariff reductions and other agreements forged on Monday and Tuesday in Warsaw will lay the groundwork both for closer cooperation among Central European Free Trade Area countries and for later linkage between those countries and the European Union, he said.

Signing the agreements were agricultural ministers from Poland, Hungary, Slovakia, Slovenia and the Czech Republic.

In addition to the plans for joint tariff reductions, the CEFTA countries also agreed to establish a coordinated commodity exchange system, marketing exchanges and a system for cooperation among farmers organisations.

The next step is to work out "all the details" of the new partnership.

"Now we need to do things like preparing border certification procedures and quality control, so when we order a number 33 tomato from Hungary, for instance, we know what we're getting," Mr Brzoska said.

For Poland, the benefits of the agreement include an increase in the assortment of products available to consumers and a decrease in price, which will help in the battle against inflation.

By eliminating tariffs, CEFTA products will be better able to compete against subsidised foodstuffs from EU countries, which supplanted a substantial portion of the regional trade after the break-up of the Communist system.

"In the future, we believe Polish agricultural production also will increase," he said. "As our scale of production becomes larger, we will have a much better base for export expansion."

Mr Brzoska sees Polish fruits, vegetables, milk products, and processed foods as having the greatest export potential. And although Poland is now a net importer of agricultural products, Mr Brzoska believes the new agreements eventually will lead to a trade surplus for his country.

Giving huge VSAT contract to Norwegians "a mistake"

- *says ministry information chief*

by Genevieve Zalatorius

MINISTRY OF FINANCE officials say it is possible they would reconsider a VSAT contract awarded to a Norwegian firm last month, if other telecom firms could offer more favourable conditions.

On Wednesday, ministry officials told *Central European Business Weekly* that the contract, awarded to Norwegian Information Technology, NIT-Praha in December, was so favourable it was unlikely any other VSAT firm would match it.

According to Mr Jiri Roudny, who heads the telecommunications section in the Ministry of Finance, the Norwegians not only offered a very low price, but they agreed to provide use of a transponder free for a five-year period.

Telecom experts estimate use of a transponder can run from $2.5 to $4 million a year.

The Norwegian firm was awarded the telecom contract, estimated at about $10 to $12 million to link 152 different customs sites by satellite in the Czech Republic.

Earlier this month various VSAT operators in the Czech Republic began to express concern that NIT-Praha was awarded the contract last year because there was no public tender.

Ministry of Finance telecommunications head, Jiri Roudny said earlier this month that there was no tender "because a public tender needs some procedure."

"A public tender needs some time to be published, to wait, to obtain answers and so on," Mr Roudny said.

After repeated questions, he could not explain how the six to seven firms asked to bid on the VSAT contract were selected. Firms asked to submit bids were Telecom, Eurotel and Kabel Plus.

He added, "we have such an agreement that it's possible to annul (the contract), but it's necessary to obtain something better," Mr Roudny said. His boss, Finance Ministry Info System Director Petr Cihelka said on Wednesday that awarding the contract was "a mistake" but it was done because ministry officials were pressed for time.

Mr Cihelka said not contacting other VSAT operators was done in the interest of saving time and awarding the contract before a January 1st, 1995 deadline.

Beginning January 1st, a law passed by parliament went into effect stating all large contracts have to go to public tender.

Mr Roudny justified choosing the Norwegians for the VSAT contract because they own the transponder and are in a position therefore to offer the best possible rates.

He said all other VSAT firms operating in the Czech Republic lease the transponder from someone, the Norwegians own their own.

"When somebody will sell you this transponder, there is a 15 per cent or 30 per cent mark up," Mr Roudny said.

Norwegian Nera company sales manager Tore Thuen said the Norwegian telephone company, TeleNor, owns two satellites and each has "from three to seven transponders."

According to NIT-Praha managing director Stefano Vittor, TeleNor is a subcontractor for NIT and TeleNor has the second largest earth station in the world, just 20 kilometres outside of Oslo.

"TeleNor owns their own satellite and they don't have to buy satellite capacity," Mr Vittor said in an interview with *CEBW* last week.

However, Mr Thuen said that use of a transponder for a five-year period is definitely "not a gift-I'm sure" to ministry officials.

"They (Norwegians) probably don't do it for free. They want to have something back," he said.

Mr Roudny said later this year it is likely there will be a public tender for an additional 300 custom offices that need to be connected by VSAT as well as 223 tax collection sites.

"We are obliged to make this public bidding for a new number of satellite connections," Mr Roudny said, but he added it could be summer before officials know for sure.

He said finance officials are seeking to try to get a "leased line" before trying a satellite link. "If we will obtain a leased line, it will not be necessary to use VSAT," Mr Roudny said.

Railway director says he did nothing wrong

by Genevieve Zalatorius

THE DIRECTOR OF Czech Railways, Emanuel Sip, said he feels he has done nothing wrong in the wake of a second audit at the railway, but said accounting procedures could be improved.

Mr Sip, in an interview with *Central European Business Weekly* this week, said "the accounting of money was not good" but he said that accountants at the railways are overworked and underpaid compared to private industry.

The railway director has come under increasing criticism during the last few weeks following a Ministry of Transport audit, begun last year, which found financial discrepancies in use of state subsidies.

According to auditor Eva Vitousova, who once worked under Mr Sip as deputy general director, there were reportedly problems in the way state subsidies were used to cover losses from passenger transport.

Mr Sip has until the end of this week to respond to the Ministry of Transport audit, which follows on the heels of an audit conducted earlier by the Czech Supreme Control office and completed in March of 1994.

"If you measure the extent of these (shortcomings), it doesn't exceed 20 million crowns," Mr Sip said in an interview.

Ministry of Transport official Pavel Kavka said on Wednesday he doesn't believe that Mr Sip could be fired and refused to say what steps ministry officials could take following his response.

"My comment is every control, every audit, finds something wrong," Mr Kavka said.

Mr Sip, angry to be at the centre of an auditing controversy, said that the "results of the control are not as striking as it could be found in the media," adding that press accounts overdramatised the audit.

Promises, promises... Mr Meciar's manifesto

by Jennifer Hushion

PREMIER VLADIMIR MECIAR, champion of the ordinary man, presented his coalition's manifesto to parliament last week. It was full of sweeping economic reforms, promises of applications to the European Union and Nato, and humanitarian ideals. What the manifesto seemed to lack, however, was any sort of cohesive strategy as to how to actually reach his 21st century utopia.

The Meciar-led coalition cabinet was formed on December 13th of last year. It includes the unlikely combination of his own party, the Movement for a Democratic Slovakia (HZDS), the extremely Slovak-centric, Slovak National Party (SNS) and the extreme left Slovak Workers' Party (ZRS). Together the three parties hold a majority of the parliamentary seats, 83 out 150.

"Slovakia has come to a crossroads from which one way leads to growth, prosperity, integration with European structures, and the other to stagnation, internal feuds and conflicts...the government is proposing a way to prosperity."

Mr Meciar exclaimed that the primary objective of his manifesto is economic recovery. He said it is his intention to bring the economic performance and living standards in Slovakia into line with western European countries by the year 2010 at the latest.

"The government will provide for the accelerated completion of the economic transformation." His cabinet's macroeconomic reform targets for its four-year term in office include, decreasing unemployment to below ten per cent, achieving a five per cent annual increase in the GDP, full convertibility of the Slovak crown, keeping the deficit under three per cent with a balanced budget as the target, and if all of this weren't enough to satisfy the common man by 1999, he threw in a ten per cent maximum cap on inflation.

His loosely worded strategy to achieve these lofty goals includes a programme of "public investment", a series of legislation which will eradicate insolvency and tax evasion, and initiatives to support investment and export.

His government plans to submit an application to join the EU by June 30th and is also interested in joining NATO. He then followed this reasonable enough statement with a warning, saying that to reject the manifesto "under any pretext" would mean to reject these objectives. In other words, in typical Meciar fashion, 'you'd better not disagree with me, or there could be dire circumstances.'

According to the manifesto, he will amend the law on political parties, reform public administration, and ensure that legislation is completed in line with democratic principles and humanitarianism. However, Mr Meciar did say the cabinet would ask the Council of Europe to reconsider whether the permanent ban on capital punishment was necessary.

Within what he calls the humanitarian sphere, he said, "The government is quite ready to abide by all commitments in the realm of ethnic minorities' rights." Particularly in the area of religious freedom, the government will create an atmosphere of congeniality and partnership among churches and religious communities and provide a place for religious services within the army. Mr Meciar promises to fight crime and corruption with his "clean hands" programme.

"The government considers privatisation to be one of the focal points of transformation." Mr Meciar said, which is an interesting statement considering that two weeks ago the opposition deputies asked the constitutional court to consider whether the privatisation law adopted last year by Mr Meciar's supporters annulling the sale of 55 properties was legal.

The law initiated last year overturned the privatisation decisions made by former Premier Josef Moravcik's government from September 6th, 1994.

Mr Mediar would like employee participation to be paramount in the changes involved in the privatisation of enterprises. He does not say whether employee participation would involve the purchasing of shares, and if so how would an employee accomplish this on an average worker's salary? Or, perhaps they would take on more challenging management positions.

Mr Meciar also envisions instalment payments and the "efficient entry" of foreign capital to modernise companies.

"The second wave of coupon privatisation will be launched without delay." Majority stakes will be privatised through sales to a strategic investor. However, no time frame was alluded to in the manifesto.

Former deputy premier Brigita Schmognerova, from the Democratic Left Party, was one of the first to speak out against Mr Meciar's plan. She believes there are internal discrepancies within the manifesto, between the fiscal policy aimed at lowering the budget deficit and its welfare policy.

She also believes the use of credits for economic revival could destabilise the currency and threaten the independence of the Slovak National Bank and that instalment payments for the privatisation of companies could profit certain Meciar supporters and harm those who are not.

Finally in an absurd denial of his own party's history, Mr Meciar asked his cabinet to adhere to parliamentary democracy and respect the opposition's view as beneficial to debate and to society.

"I call on the deputies to avoid political instability and internal decay. Do not let us be led astray, as so often in the past, by narrow-minded party interests."

As this is Mr Meciar's third spell in office as prime minister of Slovakia, and the previous two terms ended in disillusion and confusion, many observers are anxious to know how the populist premier intends to avoid a similar fate next time around.

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Speculation grows over Hungarian government aims

- collapse of HungarHotel deal casts a long shadow

by Sarah Roe In Budapest

POLITICIANS AND ECONOMISTS in Budapest have focussed their attention on one issue this week. The collapse of the HungarHotel privatisation deal with US-based American General Hospitality has fuelled discussions in all circles as the implications of the government decision to turn down AGH at the last minute become clearer.

Prime Minister Horn called off the deal, which would give the hotel management company a 51 per cent stake in Hungary's last state-owned hotel chain at a cost of $57.5 million. Privatisation of HungarHotels has been in negotiation for over a year and AGH has spent some $1 million in the process. Privatisation of the hotel industry as a whole dates back to 1990.

The collapse of HungarHotel negotiations has lost Privatisation Minister Ferenc Bartha his job and further resignations are rumoured. The cabinet is split over the issue, leaving Hungary in political turmoil.

The decision of the prime minister casts doubt on the seriousness of his socialist government's commitment to privatisation. Some say that Mr Horn aims to take control of privatisation away from the finance minster and put it under direct control of the cabinet.

Cabinet control of privatisation had been scrapped in an attempt to streamline the transition.

The international business community in Budapest have expressed their concern at the Hungarian government's change of course in the last year, emphasizing that the future could be bleak for investment in the country. Patrick Hughes, commercial attache for the American Embassy stressed the cumulative effects of government policy over the past year.

Whilst cumulative investment in Hungary remains the highest of all the central European countries, the country has fallen from favour due to competition from Poland and the Czech Republic.

The combination of a change in the tax structure, which is detrimental to foreign companies, an increase in tariffs and the introduction of a new privatisation bill, not expected to be passed before March, give a "fairly unflattering picture," he said.

"Given the recent problems in Mexico, investors are extremely cautious with developing markets and will probably look at all these things as a package."

Whilst cumulative investment in Hungary remains the highest of all the central European countries, the country has fallen from favour due to competition from Poland and the Czech Republic.

Last year, investment was only half its target value but foreign investment must pick up to $2.5 billion per year over the next three years if economic reform is to be realised.

The tourism industry is particularly in need of additional capital. Recent figures released by the National Tourist office in Hungary indicate that tourism has fallen over the past year.

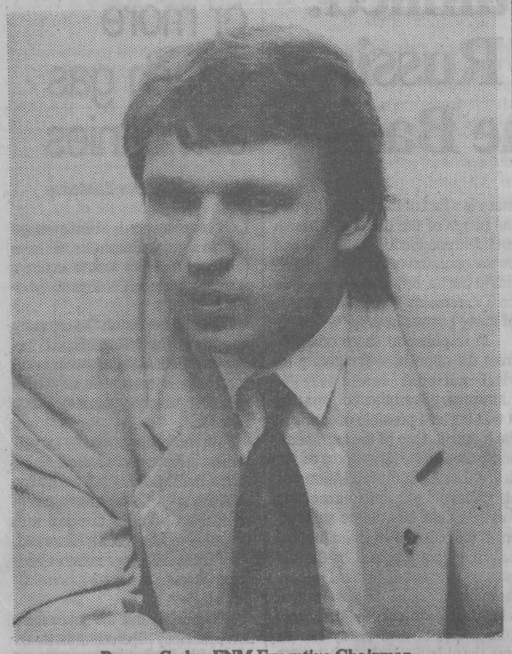
In 1994 the industry generated around $1.4 billion in foreign exchange revenues, with the number of tourists declining by 21 million on the previous year. A modernised hotel network could be crucial in generating revenue in this field.

"Tourism revenue can go a long way to solving the balance of payments problems so the governments should attempt to increase the revenue from tourists," commented Mr Hughes. "Most revenue is generated from western tourists staying in nice hotels, and this is currently a very small figure in Hungary."

But despite the rumblings of the foreign community and political pressure from within his party and the coalition government, Mr Horn has stood firm on his decision to back down from the deal. He claims that selling for the agreed amount would have been giving away valuable state assets for too low a price.

The value of the hotel chain has been set at several times the figure which was negotiated with AGH, and there is evidence of public feeling against foreign companies buying out Hungarian state enterprises on the cheap which means Mr Horn will have scored some useful political points in his decision.

However the feeling amongst much of the Budapest business community is that Prime Minister Horn must learn to play the capitalist game properly. Agreeing to a deal and then pulling out is not in the rules.



Roman Ceska, FNM Executive Chairman

CZECH REPUBLIC:

Privatisation figures obscure reality

by Jennifer Hushion In Prague

ROMAN CESKA, executive chairman of the National Property Fund gave himself and the FNM a pat on the back last week when he announced that 80 per cent of all business property in the Czech Republic has been privatised. However, this figure is largely distorted when the Czech definition of privatisation is taken into consideration.

According to Mr Ceska, enterprises have been denationalised through the following methods: Restitution claims have been responsible for 70 to 120 billion crowns worth of denationalised property, transfers to municipalities, approximately 350 billion crowns, small company privatisation amounts to 21 billion crowns and large company privatisation, 480 billion crowns.

When referring to privatisation of enterprises the FNM utilises the extremely deceptive method of the Czech Statistical Office. The CZO lists as private some companies which are in fact only 20 per cent owned by the private sector. This has led politicians to claim that 80 per cent of the Czech economy is in private hands.

The truth is, huge companies and entire sectors are not privatised. Most of the large domestic banks, health insurance, energy producers and suppliers, the petro chemical industry, and telecommunications are just some of the areas which remain under state control.

The CZO lists as private some companies which are in fact only 20 per cent owned by the private sector. This has led politicians to claim that 80 per cent of the Czech economy is in private hands.

More specifically CEZ, CSA, SPT Telecom, Chemopol are enormous giants far from being "privatised." Despite share issues and pending foreign partners the state will maintain control in these companies for at least the foreseeable future.

The FNM is compiling a list of companies that will appear in the March edition of the coupon privatisation bulletin, CKP Kuponova privatizace. The list will include investment opportunities taking the form of auctions, tenders and share issues. It is also publishing in an effort to hopefully embarrass its debtors into paying their bills, a list of all who owe the FNM money.

As of the end of 1994, the FNM was sitting on 7.8 billion crowns worth of over-due debt, or 8.9 per cent of the year's total income.

With respect to the FNM's implementation of the tender process, it will only meet with those who make the highest bids and a ten per cent deposit must accompany the bid.

Czech aircraft landing fees still a bargain

by Genevieve Zalatorius In Prague

AIRCRAFT AIRSPACE and landing fees have been creeping up slowly, but still have a ways to go before catching up with rates charged by European neighbours, an aviation spokesman said.

Stanislav Cerny, of the Czech Air Traffic Control Administration, said on Wednesday that it costs about $68 per unit to fly through Czech airspace, up from last year's figure of $64 per unit.

In 1992 the rate was about $42 per unit, according to information released by air traffic control officials.

Mr Cerny said Czech prices are still lower than those in Vienna, Austria, which was $65 per unit in 1994 and the United Kingdom where it costs $115 per unit.

Airspace penetration charges are based on a formula computed taking into account the size and weight of the aircraft as well as passenger number, according to Mr Cerny.

"After the fall of communism, there was a rapid demand for Czech airspace," Mr Cerny said adding that new radar and aircraft tracking equipment was needed to keep up with the large number of planes flying into and over Czech territory.

Therefore the Czechs invested, beginning in 1993, in the Eurocat 200 system, supplied by the French Thomson-CSF firm which allows wider tracking and control of aircraft over Czech territory.

Mr Cerny said the old system with its outdated equipment "could not accommodate (increasing) air traffic" so the Air Traffic Control officials were forced to make additional investments.

In 1995 the company is expected to spend over 450 million crowns on equipment purchases taking into account the Thomson-CSF Eurocat system, Mr Cerny said. In addition he said money was used for radio communications with aircraft, navigation aids and radars.

That figure is up from the approximately 410 million crowns spent on improvements in 1994.

The Czechs have been able to keep costs of landing fees and airspace lower than their neighbours due to older equipment, which was not as up-to-date as in many European countries, according to Mr Cerny.

"Our price depends on equipment. Our airlines pay for technical level. If we have good equipment, they fly without delays because time is money," he said.

The Czech Air Traffic Control Administration collects only a minority, about 20 per cent, of its fees from aircraft that land at airports in the Czech Republic.

Mr Cerny said the majority of fees, about 80 per cent, are collected from aircraft flying over Czech territory.

Beginning January 1st the Czech Air Traffic Control Administration changed its name to Air Navigation Services of the Czech Republic.

SkoFIN launches first foreign-owned bond issue

by Mark Heller In Prague

SKOFIN S.R.O., a leading automobile finance company in the Czech Republic launched a 2 billion crown bond issue this week through ING Capital Markets, an investment banking subsidiary of Internationale Nederlanden Bank N.V. Amsterdam.

The bond issue is the first and largest Czech crown debt issue by a foreign-owned corporation that will be publicly traded on the Prague Stock Exchange.

The interest on the bond is 11.625 per cent per annum and it is priced at 100.90 per cent.

SkoFIN is 100 per cent owned by Volkswagen Financial Services AG which has unconditionally guaranteed the bond.

SkoFIN provides automobile related financial services to the dealers and customers of the Volkswagen group such as Skoda, VW, Seat and Audi.

In the first nine months of 1994, SkoFIN had revenues in excess of 2.4 billion crowns or $85 million and pre-tax profits of 97 million crowns or $3.5 million.

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